

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 12 MARCH 2021****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: INVESTMENT CORE BELIEFS AND THE UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS****SUMMARY OF ISSUE:**

Strategic objectives	
Investment	Governance

This paper provides details of the progress made in developing the Surrey Pension Fund's investment strategy, consistent with the environmental, social and governance (ESG) commitment in its Mission Statement and with actions agreed in the Pension Fund Committee meeting of 11 December 2020.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee note the progress against the actions agreed in the Pension Fund Committee meeting of 11 December 2020.

REASON FOR RECOMMENDATIONS:

To keep the Pension Fund Committee apprised of the progress made in reviewing the Fund's investment strategy with a view to ensuring that it is in line with its Mission Statement and the emphasis on environmental, social and governance (ESG) considerations.

BACKGROUND:

1. At its meeting of 7 June 2019, the Pension Fund Committee approved the following mission statement:

"The Surrey Pension Fund will deliver a first-class service through strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. Environmental, Social and Governance factors are fundamental to our approach which is underpinned by risk management, informed decision making, the use of technology and the highest standards of corporate governance".

2. Further to this, at its meeting of 20 December 2019, the Pension Fund Committee approved for a Committee sub-group to be convened to develop the Fund's responsible investment approach, consistent with the ESG commitment in its Mission Statement.

3. As a result of the findings of this Committee sub-group, the Fund had chosen to use the United Nations Sustainable Development Goals (SDGs) as a reference for Responsible Investment, as it represents a framework of universally agreed goals in which all countries within the United Nations should aim to achieve by 2030.
4. The Fund appointed Minerva Analytics to examine the existing Investment Portfolio holdings of Surrey Pension Fund and their relationship (positive/negative) to the SDGs, and identify the risks and opportunities associated with the analysis.
5. The Fund received a report from Minerva Analytics in its meeting of 11 December 2020. In response to this report and the Committee approved the following:
 - i) Having considered all aspects of incorporating ESG considerations into the investment approach, and in acknowledgement that there is no universally agreed approach in this area, agrees that the use of SDGs provides a forward thinking and comprehensive approach in referencing the transition to sustainability within the Fund's investment strategy.
 - ii) The Minerva Report provides sufficient assurance to enable a decision to move to the next stage of more detailed preparation and implementation.
 - iii) A request for further action from officers and, where appropriate, advisors, to cover the following areas:
 - Draft relevant changes to the Investment strategy.
 - Develop SDG into an engagement framework for companies as well as Investment Manager activity.
 - Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers.
 - Work with Border to Coast on developing SDG approach to Pooled assets.
 - iv) Agrees that officers provide the following updates for the next meeting:
 - Presentation of an implementation plan.
 - Propose the method by which progress on implementation is incorporated as part of all future investment strategy reviews.
 - Propose the timeline for the assessment and ongoing viability and effectiveness of this approach.

DETAILS:

Implementation plan

6. The implementation plan is the roadmap to develop the Fund's investment strategy, consistent with the ESG commitment in its Mission Statement. It consists of the following:

- Work with the Investment Consultant and Independent Advisor and present initial amendments to the Fund's Investment Strategy Statement.
- Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers.
- Develop SDGs into an engagement framework for companies as well as Investment Manager activity, concentrating on the Fund's principal providers of investment products, Legal and General Investment Managers (LGIM) and Border to Coast.

Work with Investment Consultant and present initial amendments to the Fund's Investment Strategy Statement

7. Discussions are ongoing with the investment consultant, Mercer, the independent advisor, MJ Hudson, Minerva Analytics and Border to Coast to articulate amendments to the Fund's Investment Strategy. A first draft review will be presented to the Pension Fund Committee at its meeting of 11 June 2021.

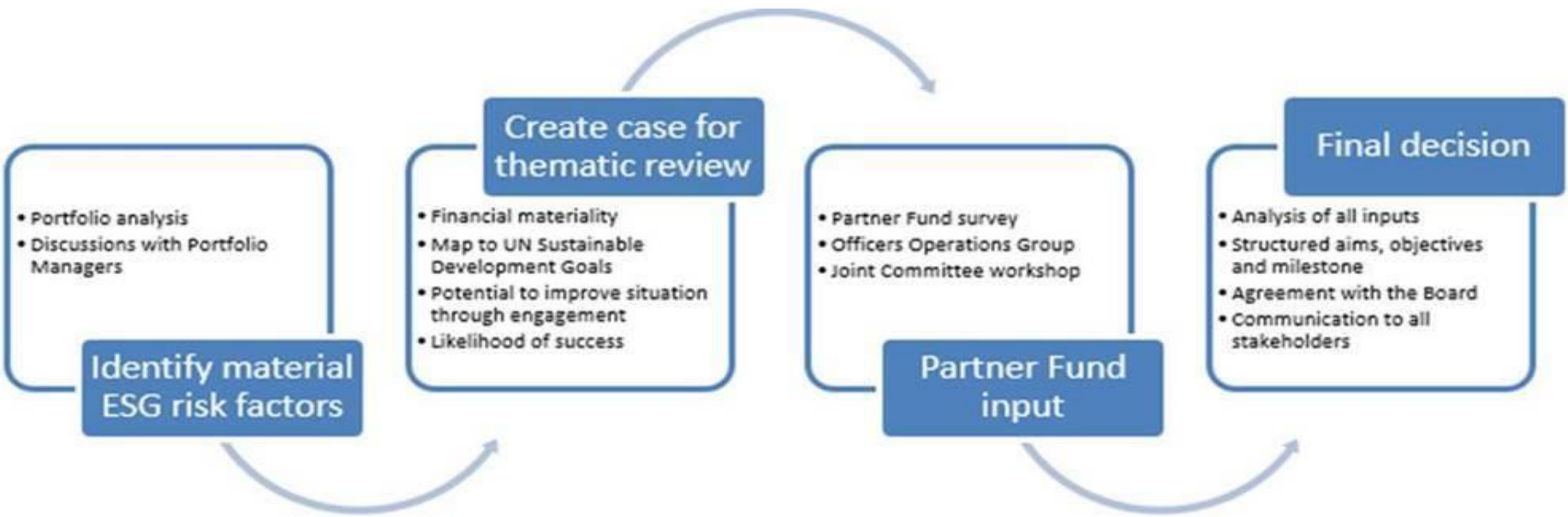
Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers

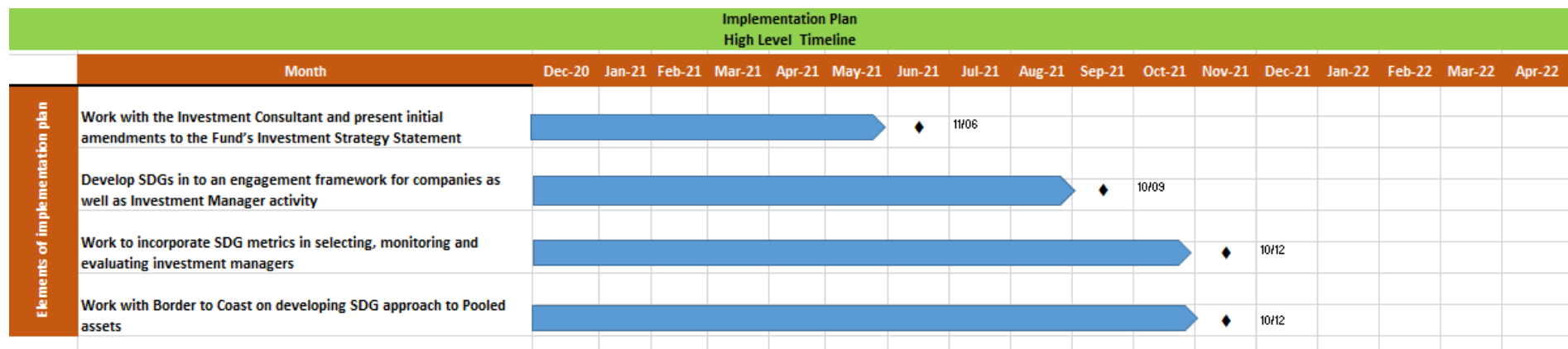
8. The Fund opted to use the World Benchmarking Alliance (WBA) SDG2000 to assess its starting position in understanding which companies have the potential to shift the dial in delivering the SDGs, if they were managed with the highest levels of corporate governance. The Benchmark was used to provide a starting position as opposed to being used for assessing periodic progress.
9. While the WBA SDG 2000 benchmark is helpful in establishing a starting position, it does not currently have a sufficiently mature data set to provide a completely reliable metric for the ongoing evaluation and monitoring of investment managers across all 17 UN SDGs.
10. Some of the UN SDGs have more established metrics to allow ongoing evaluation and work in these areas will be prioritised. One example of this is SDG 13 (Climate Action).
11. The Fund can use its reporting on the Taskforce for Climate Related Financial Disclosures (TCFD) to address SDG 13, and will aim to report on more Climate Related disclosures on a periodic basis beginning from Financial Year ending 2020-21. This obligation to report against TCFD will then become a mandatory requirement for UK Pension Funds in 2021-22.
12. In respect of SDG 13, the Fund will also continue to work with Border to Coast on how it utilises climate related metrics when evaluating and monitoring investment managers, as well as feed into their work to establish a standalone climate change policy.
13. The Fund will continue to explore how other metrics for other UN SDGs can be incorporated in monitoring and evaluating investment managers. Examples of this are impact related measurement tools, associated with the adoption of the Impact Investing Principles (referenced in Company Engagement report) and how they can be used to select, monitor and evaluate investment managers. The Fund will also work with Border to Coast, as part of its thematic review of

the scope for mapping the SDGs in the investment process, as outlined further in the next section of this report.

Develop SDGs into an engagement framework for companies as well as Investment Manager activity, concentrating on the Fund's principal providers of investment products, Legal and General Investment Managers (LGIM) and Border to Coast

14. As part of its pooling commitment, the Fund has embarked on transitioning all of its actively managed listed and legacy unlisted assets to Border to Coast. In the future all assets will be managed by Border to Coast, with only indexed assets excluded from this commitment. The Fund's current provider of indexed assets is LGIM, therefore, the work to develop SDGs into an engagement framework for companies will concentrate on LGIM and Border to Coast.
15. The Fund has had initial conversations with LGIM, exploring options to more closely incorporate the SDGs in its investment approach.
16. The Fund has considered LGIM's engagement approach through their Future World Framework. This provides both a robust and measurable framework for assessing the effectiveness of their engagement with companies. The Future World Framework engages on key sustainability themes, which are considered essential elements of the 'Future World' and which the Fund feels closely aligns with the SDGs, including but not limited to:
 - Climate Change Energy (SDG 7: Affordable and Clean Energy, SDG 13: Climate Action).
 - Biodiversity (SDG 14: Life below Water, SDG 15: Life on Land).
 - Waste (SDG 12: Responsible Consumption and Production).
 - Water (SDG 6: Clean Water and Sanitation).
 - Human Rights (SDG 10: Reduced Inequalities).
 - General Population (SDG 11: Responsible Cities and Communities).
17. The Fund has also held discussions with Border to Coast on implementation considerations of the Pool's engagement approach.
18. As part of Border to Coast's Responsible Investment 3 Year Strategic Plan, Border to Coast will select engagement themes for the Annual Responsible Investment Policy Review based on three key principles going forward:
 - That progress in these areas would be expected to have a material financial impact on our investment portfolios in the long-term.
 - That the voice of Partner Funds should be a part of the decision.
 - That ambitious but achievable milestones can be set through which we can measure progress over the period.





The method by which progress on implementation is incorporated as part of all future investment strategy reviews/ the timeline for the assessment and ongoing viability and effectiveness of this approach

19. As both the SDGs and Impact measurements are very much in their early stages, it may be too early to set a timescale on assessing the appropriateness (or lack of) in using the SDGs as an Investment Framework from the Fund's perspective. However, as this is a subject of considerable interest to our stakeholders, it is proposed the Committee review developments and the progress of the Implementation Plan on an ongoing basis, reported formally through Pension Fund Committee meetings.
20. The Fund expects metrics to only improve in their robustness and usability over the coming years as more Asset Managers meet the demand of Asset Owners in seeking sustainable investment products.
21. The Fund will continue to assess the effectiveness and practicality of the metrics on a periodic basis, when new measurements are available. This can be assessed triennially in line with its Investment Strategy Reviews and Triennial Valuation timescales.

CONSULTATION:

22. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

23. The consideration of risk related issues, including investment, governance and reputational risk, are an integral part of this project and will be considered as part of the project development.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

24. There are no financial and value for money implications contained in this report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY:

25. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER:

26. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

27. There are no equality or diversity issues.

WHAT HAPPENS NEXT

28. The following next steps are planned:
- Officers to continue to work with the investment consultant, Mercer, the independent advisor, MJ Hudson, Minerva Analytics and Border to Coast on the implementation of recommendations.

Contact Officer:

Neil Mason, Strategic Finance Manager (Pensions),
Mamon Zaman, Senior Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman

Annexes:

None

Sources/background papers:

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